

**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
SCHOOL DISTRICT**

**For The Fiscal Year Ended
June 30, 2014**

**ROSS & COMPANY, PLLC
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Members of the Board
Morgan County School District
West Liberty, Kentucky

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Morgan County School District, West Liberty, Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, including *Appendix I—Audit Extension Request and Appendix II—Instructions for Submissions of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Morgan County School District as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 6 and 33 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Morgan County School District's basic financial statements. The introductory section and combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis are required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2014, on our consideration of the Morgan County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* considering Morgan County School Districts' internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross and Company", written in a cursive style.

Ross and Company, PLLC
November 13, 2014

**MORGAN COUNTY SCHOOL DISTRICT
WEST LIBERTY, KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

As management of the Morgan County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning fund balance for fund 1 for the District was \$2,364,241 which includes Site Based CWFD in the amount of \$3,468 and restricted sick leave in the amount of \$105,236. The CWFD amount was re-budgeted in the per pupil accounts for designated schools. The ending fund balance for fund 1 was \$1,952,243, which includes committed Site Based CWFD in the amount of \$10,141 and will be budgeted appropriately for FY 2015. The FY14 fund balance also included \$105,236 for current portion of restricted sick leave liability and \$21,487 for current portion of committed sick leave liability. General Fund currently has \$1,575,000 invested in CD's.
- The General Fund had \$17,971,498 in revenue, including beginning balance and inter-fund transfers, which primarily consisted of the state program (SEEK), property, utility, motor vehicle taxes, and Universal Service Fund reimbursement. There was \$16,019,255 in General Fund expenditures including \$268,155 in inter-fund transfers which involved KETS and KISTA debt service. Also included within this amount is \$126,723 budgeted for sick leave with an actual of \$59,094 paid out and long term sick leave liability reflected in the notes to the financial statements. On-behalf payments of \$3,035,150 are included in both revenue and expenditures.
- The new Wrigley Elementary Schools was opened in 2014 with students and staff moving in during January. The new school has a revised estimated cost of \$15,277,512. BG-5 has not been submitted to close out the project.
- The general fund portion of diesel /gasoline fuel for the district decreased by \$16,135 from last year due to decreasing rates for fuel. General fund absorbed fuel cost (0699-fuel reimbursement code) in the amount of \$95,361 for athletic and academic trips which decreased by \$17,353 from last year. The cost for fuel would be considerably higher if PTO's and Fund 2 grants did not continue supporting this cost.
- The board also supplements various other areas including health nurses/supplies \$90,939; Speech Therapy \$75,837; Physical Therapy \$14,918; Occupational Therapy \$28,266; Gifted and Talented \$9,463; Technology \$37,851; Band \$4,925; Athletics (MCHS/MCMS) \$13,000; Academics (MCMS/MCHS) \$2,628; Vocational \$4,841; Textbooks \$27,960 and Competition Based/District/Regional/National \$31,876. The combined total of all of these programs was \$95,712 less than budget of \$438,216.
- General fund salaries, including on-behalf payments and benefits, totaled \$12,944,990. This was \$232,178 less than the original budgeted amount.
- The overall utilities reflected an increase of \$53,069 in the district from last year. Large part of increase due to opening of new elementary.

FINANCIAL HIGHLIGHTS

- The Kentucky Retirement Systems notified the district of a decrease in the employer contribution for CERS (classified staff) from 19.55 percent for FY13 to 18.89 percent for FY14 resulting in \$19,939 less in CERS contributions than FY13. Kentucky Teachers' Retirement (certified staff) employer contributions continue to increase. Per law, KTRS employer contributions will increase in increments until it reaches 3% by FY 2016 (FY 2012--.5%; FY 2013--1.0%, FY 2014--1.5%, FY 2015--2.25%, FY 2016--3.0%).
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. Four new buses were purchased this year. KISTA payments increased by \$21,283. The notes to the financial statements reflect liability for KISTA bus leases per paying agents for the district. The paying agent for buses is Monticello Banking Company.
- While there was no impact to this fiscal year's budget due to the dissolving of KSBIT, the district will budget for the yearly estimated amount of the Novation payout option.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The district-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of activities presents information showing how the District's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's Net Position changed during the most recent fiscal year. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (government activities.) The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11 and 12.

OVERVIEW OF FINANCIAL STATEMENTS (CONTINUED)

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are the day care and food service operations. All other activities of the District are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 and 15.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

The notes to the financial statement can be found on pages 22-36.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net Position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$19,555,184 as of June 30, 2014.

A portion of the District's Net Position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District used these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition of capital assets, and the depreciation of capital assets.

DISTRICT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Net Position for the period ending June 30, 2013 and 2014, respectively:

ASSETS	2013	2014
Total current assets	\$ 12,713,835	\$ 4,574,740
Total non-current assets	30,498,609	35,640,509
Total assets	43,212,444	40,215,249
DEFERRED OUTFLOW	-	919,829
Total assets & deferred outflow	\$ 43,212,444	\$ 41,135,078
LIABILITIES		
Total current liabilities	\$ 3,460,013	\$ 2,139,516
Total non-current liabilities	20,567,896	19,440,378
Total liabilities	\$ 24,027,909	\$ 21,579,894
NET POSITION		
Invested in capital assets, net of related debt	\$ 8,676,948	\$ 14,919,895
Restricted	8,117,251	2,514,599
Unrestricted	2,390,336	2,120,690
Total Net Position	\$ 19,184,535	\$ 19,555,184

Please see Table 1 on page 7 and Table 2 on page 9, which present comparison summaries of revenues and expenses for the current fiscal year ended and the previous year FY2013. *Note: This Table does not include beginning balances or depreciation expenses but does reflect on-behalf payments made by KDE.

Table 1

	General Fund		Special Revenue		Food Service	
	2013	2014	2013	2014	2013	2014
Revenues/Sources:						
Local Revenue Sources	\$ 2,711,240	\$ 2,753,931	\$ 85,924	\$ 45,184	\$ 246,296	\$ 248,384
State Revenue Sources	12,628,656	12,727,304	535,341	681,785	100,917	117,812
Federal Revenue Sources	28,469	56,443	2,025,169	1,746,888	1,034,950	1,058,821
Fund Transfer	76,710	63,173	45,498	29,728	49,197	-
Other	4,784	6,406	-	-	-	-
Totals	\$15,449,859	\$15,607,257	\$2,691,932	\$2,503,585	\$1,431,360	\$1,425,017
Expenditures/Expenses:						
Instruction	\$8,447,864	\$ 8,357,824	\$1,919,206	\$1,741,525	\$ -	\$ -
Student Support Services	816,078	884,893	79,481	91,696	-	-
Instructional Staff Support Services	584,537	553,509	333,973	269,030	-	-
District Admin Support	579,409	483,628	457	-	-	-
School Admin Support	1,057,286	1,071,699	-	-	-	-
Business Support Services	495,136	491,277	-	-	-	-
Plant Operation & Management	2,279,788	2,340,628	18,660	69,415	-	-
Student Transportation	1,511,784	1,548,733	25,316	14,847	-	-
Food Service Operation	-	-	-	-	1,510,616	1,502,712
Community Services	43,295	18,909	314,839	299,797	-	-
Fund Transfer	2,966,158	268,155	-	17,275	-	-
Totals	18,781,335	16,019,255	2,691,932	2,503,585	1,510,616	1,502,712
Excess of Revenues Over Expenditures	\$ (3,331,476)	\$ (411,998)	\$ -	\$ -	\$ (79,256)	\$ (77,695)

Comments on Budget Comparisons

- The District's total General Fund revenue for the fiscal year ended June 30, 2014 were \$17,965,092 including a beginning balance of \$2,364,241.
- General fund budget expenditures to actual varied from line item to line item with the ending actual expenditures being \$1,220,033 less than budget by 7.08% favorable percentage points.

FY-2014 Summary Revenue/Expenditures

Fund 1-General Fund

The majority of revenue was derived from State Revenue (81.5%) with local funding making up 17.6% of total revenue. The greatest amount of revenue is spent on instruction expenditures. This makes up 52% of the actual budget. The instruction function includes the SBDM expenditures for staff and supplies. The student support services make up 5.5% which includes attendance services, guidance counseling, health services, psychological testing; speech, hearing, and vision services. The instructional staff support makes up 3.5% which includes staff support personnel and librarians. The district administration support makes up 3% which includes workers comp, sick leave pay for retirees, contingency, property insurance, tax collection fees, and superintendent's office expenses. The school administration support makes up 6.7% which includes principals and secretaries expenses. The business support services makes up 3.1% which includes the finance office and other central office expenditures. The plant operation and management makes up 14.6%. The student transportation makes up 9.7%. Community services makes up less than 1% which includes activities concerned with providing services to students, staff, or the community which are not considered instructional. Fund Transfers makes up 1.8% which consists of KETS, and KISTA payments.

Fund 2-Special Revenue Fund

The majority of revenue was derived from federal sources 70% with the state revenue making up 27% and the remaining 3% derived from local sources and fund transfers. The function with the greatest expenditure is instruction being 69.5%.

Fund 51-Food Service Fund

Revenue is received from local, state, and federal monies. The largest being federal which makes up 74.3%, state 8.3%, and local 17.4%. During FY14, food service (Fund 51) cashed in their \$50,000 C.D. had restricted sick leave in the amount of \$3,077 with an actual payout of \$783 due to retirement. Proprietary funds consist of food service account and funds and Fund 54 (Community Ed). Fund 54 ended the year with a balance of \$23.

MORGAN COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014
(Continued)

FY-2014 Summary Revenue/Expenditures (Continued)

Table 2

	Capital Outlay		FSPK		Construction Fund	
	2014	2013	2014	2013	2014	2013
Revenues:						
Local Revenue Sources	\$ -	\$ -	\$ 195,627	\$ 194,847	\$ 212,107	\$ -
State Revenue Sources	189,989	186,353	493,082	480,682	-	-
Fund Transfers	-	-	-	-	63,675	3,345,884
Other	-	-	-	-	-	811,129
Totals	\$ 189,989	\$ 186,353	\$ 688,709	\$ 675,529	\$ 275,782	\$ 4,157,013
Expenditures:						
New Bldg Construction	\$ -	\$ -	\$ -	\$ -	\$ 4,986,725	\$ 7,510,239
Renovations	-	-	-	-	103,245	805,739
Site Improvement	-	-	-	-	25,632	\$107,982
Other	-	-	-	-	691,810	85,688
Fund Transfers	112,269	241,650	673,532	1,201,976	-	-
Totals	112,269	241,650	673,532	1,201,976	\$ 5,807,412	\$ 8,509,648
Excess of Revenues Over Expenditures	\$ 77,720	\$ (55,297)	\$ 15,177	\$ (526,447)	\$ (5,531,630)	\$ (4,352,635)

Fund 310 and Fund 320

Fund 310 is the Capital Outlay Fund and Fund 320 is the building fund (FSPK). State funding makes up the Capital Outlay and the Building Fund is made up of state and local revenue. During the FY14 school year FSPK funds were used to make bond payments on existing debt. Capital Outlay funds supported BG-1 maintenance replacement of boiler system at Morgan County Middle School in the amount of \$26,300, replacement of the water heater at Morgan County Middle School in the amount of \$20,100 and debt service payments in the amount of \$2,696. Property insurance payments for the district were also made in the amount of \$54,465 and general fund tech-related repairs and maintenance totaling \$8,750.

Fund 360

This is the Construction Fund used for new building or renovations. The restricted fund balance for FY14 totals \$1,961,452. Included in this balance is \$734,912 from construction of the new elementary school which replaced West Liberty Elementary along with balances from prior and current BG-1's transferred from Capital Outlay for maintenance projects and insurance money related to tornado damages/losses in the district.

Fund 400

Fund 400 is required to be utilized for debt service payment. The amounts for KISTA payments were transferred from general fund and bond payments from fund 320 (building fund) in the amount of \$914,655. On-behalf payments in the amount of \$982,160 are also reflected in fund 400.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. Per PSD/CSD data submitted to Kentucky Department of Education certified

MORGAN COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
June 30, 2014
(Continued)

staff decreased 4 and Classified 2 from last year. Due to the reduction in ADA and state revenue the districts' SEEK money continues to decrease in comparison to cost of operation for the district. SEEK is the district's major source of revenue. Special revenues continue to decrease requiring general fund to absorb cost when possible.

Questions regarding this report should be directed to the Finance Officer, **Addison Whitt** at (606) 743-8002 or by mail at Morgan County Board of Education, 212 University Drive, West Liberty, Kentucky 41472.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
STATEMENT OF NET POSITION

DISTRICT WIDE
As of June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 2,411,636	\$ 110,660	\$ 2,522,296
Investments	1,575,000	-	1,575,000
Other receivables	402,004	45,472	447,476
Inventory	-	29,968	29,968
Total current assets	4,388,640	186,100	4,574,740
Non-current Assets			
Land	1,089,020	-	1,089,020
Land Improvements	776,190	-	776,190
Buildings and improvements	40,887,169	-	40,887,169
Furniture and equipment	7,984,757	1,080,374	9,065,131
Construction in progress	44,252	-	44,252
Less: Accumulated depreciation	(15,594,154)	(627,099)	(16,221,253)
Total non-current assets	35,187,234	453,275	35,640,509
Total assets	39,575,874	639,375	40,215,249
Deferred Outflow	919,829	-	919,829
Total assets & deferred outflow	\$ 40,495,703	\$ 639,375	\$ 41,135,078
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 11,934	\$ -	\$ 11,934
Deferred revenue	107,038	8,329	115,367
Interest payable	502,828	-	502,828
Current portion of long-term obligations	1,155,000	-	1,155,000
Current portion of long-term capital lease obligations	224,622	-	224,622
Current portion of sick-leave	126,688	3,077	129,765
Total current liabilities	2,128,110	11,406	2,139,516
Non-current Liabilities			
Non-current portion of long-term obligation	18,164,000	-	18,164,000
Non-current portion of long-term capital lease obligations	1,176,992	-	1,176,992
Non-current portion of accrued sick leave	99,386	-	99,386
Total non-current liabilities	19,440,378	-	19,440,378
Total liabilities	\$ 21,568,488	\$ 11,406	\$ 21,579,894
NET POSITION			
Invested in capital assets, net of related debt	\$ 14,466,620	\$ 453,275	\$14,919,895
Restricted for:			
Capital projects	2,224,528	-	2,224,528
New Assets	-	141,649	141,649
Other	115,377	33,045	148,422
Unrestricted	2,120,690	-	2,120,690
Total net position	18,927,215	627,969	19,555,184
Total liabilities and net position	\$ 40,495,703	\$ 639,375	\$ 41,135,078

See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
DISTRICT WIDE

For the year ended June 30, 2014

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- type Activities	Total
Governmental Activities							
Instruction	\$9,759,167	\$ -	\$ 1,729,072	\$ -	\$ (8,030,095)		\$ (8,030,095)
Support services:							-
Student	981,094	-	91,696	-	(889,398)		(889,398)
Instruction staff	832,744	-	269,030	-	(563,714)		(563,714)
District administrative	493,172	-	-	-	(493,172)		(493,172)
School administrative	1,073,725	-	-	-	(1,073,725)		(1,073,725)
Business	489,825	-	-	-	(489,825)		(489,825)
Plant operation and maintenance	(2,172,987)	-	69,415	-	2,242,402		2,242,402
Student transportation	1,809,425	-	14,847	-	(1,794,578)		(1,794,578)
Facilities acquisition and construction	5,807,412	-	-	-	(5,807,412)		(5,807,412)
Community service activities	318,706	-	299,797	-	(18,909)		(18,909)
Other	75,534	-	-	-	(75,534)		(75,534)
Interest on long-term debt	396,488	-	-	-	(396,488)		(396,488)
Total governmental activities	<u>19,864,305</u>	<u>-</u>	<u>2,473,857</u>	<u>-</u>	<u>(17,390,448)</u>		<u>(17,390,448)</u>
Business-type Activities							
Food service	1,280,969	248,218	1,176,633	-	-	143,882	143,882
Community Education	-	-	-	-	-	-	-
Total business-type activities	<u>1,280,969</u>	<u>248,218</u>	<u>1,176,633</u>	<u>-</u>	<u>-</u>	<u>143,882</u>	<u>143,882</u>
Total school district	<u>\$21,145,274</u>	<u>\$ 248,218</u>	<u>\$ 3,650,490</u>	<u>\$ -</u>	<u>\$ (17,390,448)</u>	<u>\$ 143,882</u>	<u>\$(17,246,566)</u>
General Revenues							
Property taxes					\$ 1,336,022	\$ -	\$ 1,336,022
Delinquent property tax					62,974		62,974
Motor vehicle taxes					380,362	-	380,362
Unmined minerals tax					8,830	-	8,830
Utility taxes					652,957	-	652,957
Other taxes					308,429	-	308,429
Investment earnings					8,584	166	8,750
State aid formula grants					14,448,978	-	14,448,978
Gain on sale of fixed assets					6,406	-	6,406
Miscellaneous					403,507	-	403,507
Total general revenues					<u>17,617,049</u>	<u>166</u>	<u>17,617,215</u>
Change in net position					226,601	144,048	370,649
Net position - beginning					18,700,614	483,921	19,184,535
Net position - ending					<u>\$ 18,927,215</u>	<u>\$ 627,969</u>	<u>\$ 19,555,184</u>

See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
As of June 30, 2014

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 253,200	\$ (158,989)	\$ 1,961,452	\$ 355,973	\$ 2,411,636
Investments	1,575,000	-	-	-	1,575,000
Other receivables	135,977	266,027	-	-	402,004
Total assets	<u>\$ 1,964,177</u>	<u>\$ 107,038</u>	<u>\$ 1,961,452</u>	<u>\$ 355,973</u>	<u>\$ 4,388,640</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 11,934	\$ -	\$ -	\$ -	\$ 11,934
Deferred revenue	-	107,038	-	-	107,038
Total liabilities	<u>11,934</u>	<u>107,038</u>	<u>-</u>	<u>-</u>	<u>118,972</u>
Fund Balances					
Restricted:					
Sick Leave Payable	\$ 105,236	\$ -	\$ -	\$ -	\$ 105,236
Future Construction	-	-	1,961,452	-	1,961,452
SFCC Escrow- Current	-	-	-	263,076	263,076
Other				92,897	92,897
Committed:					
Site Base CFWD	10,141	-	-	-	10,141
Sick Leave Payable	21,487	-	-	-	21,487
Unassigned:	1,815,379	-	-	-	1,815,379
Total fund balances	<u>1,952,243</u>	<u>-</u>	<u>1,961,452</u>	<u>355,973</u>	<u>4,269,668</u>
Total liabilities and fund balances	<u>\$ 1,964,177</u>	<u>\$ 107,038</u>	<u>\$ 1,961,452</u>	<u>\$ 355,973</u>	<u>\$ 4,388,640</u>

See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS -
BALANCE SHEET TO THE STATEMENT OF NET POSITION

June 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balance-Governmental Funds	\$ 4,269,668
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Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental:

Cost of capital	\$ 50,737,136	
Construction in progress	44,252	
Accumulated depreciation	(15,594,154)	
Deferred Outflows	<u>919,829</u>	36,107,063

Long-term liabilities including bonds payable are not due and payable in the current period and therefore are not reported as liabilities in the funds:

Bonds payable	(19,319,000)	
Capital lease payable	(1,401,614)	
Interest payable	(502,828)	
Sick leave	<u>(226,074)</u>	<u>(21,449,516)</u>

Total Net Position-Governmental Funds	<u><u>\$ 18,927,215</u></u>
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See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the year ended June 30, 2014

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources					
Property taxes	\$,203,369	\$ -	\$ -	\$ 195,627	\$ 1,398,996
Motor vehicle taxes	380,362	-	-	-	380,362
Utilities taxes	652,957	-	-	-	652,957
Unmined minerals taxes	8,830	-	-	-	8,830
Other taxes	308,429	-	-	-	308,429
Earnings on investments	8,584	32	-	-	8,616
Other local revenues	191,400	45,152	212,107	-	448,659
State sources					
SEEK	9,669,697	-	-	683,071	10,352,768
On Behalf Payments	3,035,150	-	-	982,160	4,017,310
Other	22,457	681,785	-	-	704,242
Federal - indirect	56,443	1,746,888	-	-	1,803,331
Total revenues	15,537,678	2,473,857	212,107	1,860,858	20,084,500
Expenditures					
Instruction	8,357,824	1,741,525	-	-	10,099,349
Support services					
Student	884,893	91,696	-	-	976,589
Instruction staff	553,509	269,030	-	-	822,539
District administration	483,628	-	-	-	483,628
School administration	1,071,699	-	-	-	1,071,699
Business	491,277	-	-	-	491,277
Plant operation and maintenance	2,340,628	69,415	-	-	2,410,043
Student transportation	1,548,733	14,847	-	-	1,563,580
Facilities acquisition and construction	-	-	5,807,412	-	5,807,412
Community service activities	18,909	299,797	-	-	318,706
Debt service	-	-	-	1,896,815	1,896,815
Total expenditures	15,751,100	2,486,310	5,807,412	1,896,815	25,941,637
Excess (deficit) of revenues over expenditures	(213,422)	(12,453)	(5,595,305)	(35,957)	(5,857,137)
Other Financing Sources (Uses)					
Other financing sources- Not transfers	6,406	-	-	-	6,406
Operating transfers in	63,173	29,728	63,675	914,655	1,071,231
Operating transfers out	(268,155)	(17,275)	-	(785,801)	(1,071,231)
Total other financing sources (uses)	(198,576)	12,453	63,675	128,854	6,406
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(411,998)	-	(5,531,630)	92,897	(5,850,731)
Net change in fund balances	(411,998)	-	(5,531,630)	92,897	(5,850,731)
Fund balance, July 1, 2013	2,364,241	-	7,493,082	263,076	10,120,399
Fund balance, June 30, 2014	\$ 1,952,243	\$ -	\$ 1,961,452	\$ 355,973	\$ 4,269,668

See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOLS DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

Total net change in fund balances- governmental funds	\$ (5,850,731)
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Amounts reported for governmental activities in the statement of net position are different because:

Governmental funds report capital outlays as expenditures because they use current financial resources. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeds capital outlays in the period.	4,653,517
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Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position however issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position. This is the amount by which bond proceeds exceed principal payments.	1,297,969
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In the statement of activities, certain operating expenses such as compensated absences (sick leave), are measured by the amount earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year special termination benefits paid exceed the amounts earned.	(978)
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Interest on long-term debt in the statement of activities differs from the amount reported in governmental funds because interest is recorded as an expenditure in the fund when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of accrued interest on bonds.	<u>126,824</u>
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Change in Net Position - Governmental Funds	<u><u>\$ 226,601</u></u>
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See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
As of June 30, 2014

ASSETS	<u>Food Service Fund</u>	<u>Community Education</u>	<u>Total</u>
Current Assets			
Cash and cash equivalents	\$ 110,637	\$ 23	\$ 110,660
Other receivables	45,472	-	45,472
Inventory	29,968	-	29,968
Total current assets	<u>186,077</u>	<u>23</u>	<u>186,100</u>
Noncurrent Assets			
Furniture and equipment	1,080,374	-	1,080,374
Less: Accumulated depreciation	<u>(627,099)</u>	<u>-</u>	<u>(627,099)</u>
Total noncurrent assets	<u>453,275</u>	<u>-</u>	<u>453,275</u>
Total assets	<u><u>\$ 639,352</u></u>	<u><u>\$ 23</u></u>	<u><u>\$ 639,375</u></u>
LIABILITIES			
Current Liabilities			
Deferred Revenue	\$ 8,329	\$ -	\$ 8,329
Total current liabilities	<u>8,329</u>	<u>-</u>	<u>8,329</u>
Total liabilities	<u>8,329</u>	<u>-</u>	<u>8,329</u>
NET POSITION			
Invested in capital assets, net of related debt	453,275	-	453,275
Restricted for:			
Net Position	144,703	23	144,726
Sick Leave Payable	3,077	-	3,077
Inventory	<u>29,968</u>	<u>-</u>	<u>29,968</u>
Total net position	<u>631,023</u>	<u>23</u>	<u>631,046</u>
Total liabilities and net position	<u><u>\$ 639,352</u></u>	<u><u>\$ 23</u></u>	<u><u>\$ 639,375</u></u>

See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

For the year ended June 30, 2014

	Food Service Fund	Community Education	Total
Operating Revenues			
Service sales	\$ 247,978	\$ -	\$ 247,978
Other operating revenue	240	-	240
Total operating revenues	<u>248,218</u>	<u>-</u>	<u>248,218</u>
Operating Expenses			
Salaries and wages	647,739	-	647,739
Professional and contract services	40,867	-	40,867
Supplies and materials	539,131	-	539,131
Depreciation	52,954	-	52,954
Other operating expenses	278	-	278
Total operating expenses	<u>1,280,969</u>	<u>-</u>	<u>1,280,969</u>
Operating income (loss)	<u>(1,032,751)</u>	<u>-</u>	<u>(1,032,751)</u>
Non-operating revenues (expenses)			
Federal grants	1,058,821	-	1,058,821
State grants	117,812	-	117,812
Interest income	166	-	166
Total non-operating revenues (expenses)	<u>1,176,799</u>	<u>-</u>	<u>1,176,799</u>
Net income (loss)	144,048	-	144,048
Total net position, July 1, 2013	<u>486,975</u>	<u>23</u>	<u>486,998</u>
Total net position, June 30, 2014	<u>\$ 631,023</u>	<u>\$ 23</u>	<u>\$ 631,046</u>

See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the year ended June 30, 2014

	Food Service Fund	Community Education	Total
Cash Flows from Operating Activities			
Cash received from service sales	\$ 233,406	\$ -	\$ 233,406
Cash received from other activities	240	-	240
Cash payments to employees for services	(647,739)	-	(647,739)
Cash payments to suppliers for goods and services	(590,044)	-	(590,044)
Net cash from operating activities	<u>(1,004,415)</u>	<u>-</u>	<u>(1,004,415)</u>
Cash Flows from Capital Financing Activities			
Acquisition of capital assets	(274,697)		(274,697)
Net cash from capital financing activities	<u>(274,697)</u>	<u>-</u>	<u>(274,697)</u>
Cash Flows from Noncapital Financing Activities			
Non-operating grants received	1,176,633	-	1,176,633
Net cash from noncapital financing activities	<u>1,176,633</u>	<u>-</u>	<u>1,176,633</u>
Cash Flows from Investing Activities			
Interest on investments	166	-	166
Cash in investment	50,000	-	50,000
Net cash flows from investing activities	<u>50,166</u>	<u>-</u>	<u>50,166</u>
Net increase in cash and cash equivalents	(52,313)	-	(52,313)
Cash and cash equivalents - beginning	162,950	23	162,973
Cash and cash equivalents - ending	<u>\$ 110,637</u>	<u>\$ 23</u>	<u>\$ 110,660</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Operating income (loss)	\$ (1,032,751)	\$ -	\$ (1,032,751)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities			
Depreciation	52,954	-	52,954
Changes in assets and liabilities:			
Receivables	(18,666)	-	(18,666)
Inventory	(9,830)	-	(9,830)
Deferred revenue	4,094	-	4,094
Accounts payable	(216)	-	(216)
Net Cash Provided by Operating Activities	<u>\$ (1,004,415)</u>	<u>\$ -</u>	<u>\$ (1,004,415)</u>

See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS

June 30, 2014

ASSETS	<u>Trust/Agency Fund</u>
Current Assets	
Due from other funds	<u>\$ 120,767</u>
Total assets	<u><u>\$ 120,767</u></u>
LIABILITIES	
Current Liabilities	
Due to school groups	<u>\$ 120,767</u>
Total net position and liabilities	<u><u>\$ 120,767</u></u>

See accompanying notes to the financial statements.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE- FIDUCIARY FUNDS

For the year ended June 30, 2014

	<u>Trust/Agency Fund</u>
Additions	
Revenues from student activities	\$ 522,026
Deduction	
Non-instructional expenses	<u>(563,594)</u>
Change in revenues over expenses	(41,568)
Due to school groups - beginning	<u>162,335</u>
Due to school groups - ending	<u><u>\$ 120,767</u></u>

See accompanying notes to the financial statements.

MORGAN COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

For the year ended June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Morgan County School District (District), a five-member group, is the basic level of government, which has financial accountability and control over all activities related to the public school education within the jurisdiction of the Morgan County School District. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Board members are elected by the public and have decision-making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations and have primary financial accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined by GASB pronouncements. In accordance with GASB Standard 14, financial transactions of the following component unit are incorporated in the accompanying financial statements.

Morgan County School District Finance Corporation – The Morgan County School District resolved to authorize the establishment of the Morgan County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS 58.180) as an agency of the District for financing the costs of school building facilities. The Board Members of the Morgan County School District also comprise the Corporation's Board of Directors.

Basis of Presentation

District-wide Financial Statements

The statement of Net Position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The District-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. The various funds are summarized by type in the financial statements. The District uses the following funds:

Governmental Fund Types

General Fund - The General Fund is the primary operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of grants from local, state and federal revenue sources that are legally restricted to expenditures for specified purposes. Project accounting is employed to maintain integrity for the various sources of funds. Federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report.

Capital Projects Funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities and equipment.

Capital Outlay Fund - The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.

Building Fund - The Facility Support Program of Kentucky Fund (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, as applicable. Funds may be used for projects identified in the District's facility plan.

Construction Fund- The Construction Fund is used to account for all resources including proceeds from bond sales and other revenues to be used for authorized construction expenditures.

Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term principal and interest related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Type

Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases (revenues) and decreases (expenditures) in retained earnings. Fixed assets of the proprietary fund are recorded at cost less accumulated depreciation. Depreciation on fixed assets is recorded using the straight-line method over the assets estimated useful lives. Under this basis of accounting and measurement focus, the District applies (a) all GASB pronouncements and (b) FASB Statements and Interpretations, APB opinions and Accounts Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The District's Proprietary funds are comprised of the following:

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Type (Continued)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA).

The Community Education Fund accounts for services rendered to the public. The fund also accounts for the services printing and copying.

Fiduciary Fund Type

Fiduciary fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting.

The School Activity Funds are fiduciary funds used to account for student activity organizations in accordance with the Uniform Program of Accounting for School Activity Funds. Financial statements of groups and organizations associated with the school system but not originated within the District (e.g., Band Boosters, Parent-Teacher Associations, etc.) are not included within school activity funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds that are presented in the fund financial statements use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting.

Exchange and Non-exchange transactions – There are two types of transactions: exchange and non-exchange. The method of determining revenue recognition (i.e., accrual v. modified accrual) depends upon the type of exchange as well as source of revenue. Exchange transactions occur when each party receives essentially equal value. Non-exchange transactions occur when one party receives value without directly giving equal value in return.

Modified Accrual - Revenue from non-exchange transactions (e.g., grants, entitlements and donations) must be available to be recognized. These sources of revenue are recognized in the fiscal year in which all eligibility requirements have been satisfied. Under the modified accrual basis of accounting, revenues from exchange transactions are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For the District, “available” means within sixty days of June 30. Property tax revenue is recognized in the fiscal year for which the taxes are levied. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. Under the modified basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Accrual - Under the accrual basis of accounting, revenues are recorded when an exchange takes place. Expenses are recognized at the time they are incurred.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Kentucky Law, appropriations lapse at fiscal year end. Encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the proprietary fund type considers highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Inventories

The Proprietary Fund records inventory at cost, determined on a first-in, first-out basis, using the accrual basis of accounting.

Budget

The District is required by state law to adopt a budget annually for the General Fund and Special Fund. Each budget is presented on the modified actual basis of accounting which is consistent with the fund financial statement presentation with the exception of employee benefits paid by the state on behalf of the district. Such benefits are reported as expenditure in the General Fund financial statements based on labor distribution, but are not included in the annual budget.

Fund Balances

The School Board has implemented GASB Statement 54 employing new terminology and classifications for fund balance items.

Non-spendable Fund Balance includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable. At June 30, 2014, the District did not have a non-spendable fund balance.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. At June 30, 2014, the District had \$105,236 as restricted in General Fund for sick leave, \$1,961,452 as restricted capital projects in the Construction Fund, \$278,253 restricted in the Building Fund, and \$77,720 restricted in Capital Outlay

Committed fund balances are those amounts that can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision-making authority, which, for the District is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment. The District had committed \$10,141 for Site Based CWFD and \$21,487 for additional sick leave in the General Fund as of June 30, 2014.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balances (Continued)

Assigned fund balances are those amounts that are constrained by the government's *intent* to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows program supervisors to complete purchase orders which result in the encumbrances of funds. Assigned fund balance also include (a) all remaining amounts (except for negative amounts balances) that are reported in governmental funds, other than the general fund, that are not classified as non-spendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose. The district did not have any assigned fund balances

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District considers unrestricted amounts to have been spent when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available. Also, the District has established the order of assigned, committed, and restricted when an expenditures is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS

The District's cash and cash equivalents consist of amounts deposited in interest bearing accounts. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At June 30, 2014, the carrying amount of the District's combined deposits (cash and cash equivalents) excluding school activity funds was \$4,905,440 and the combined bank balances totaled \$5,029,416. The bank balances were covered by the combination of FDIC insurance and collateral held by the District's agent in the District's name at June 30, 2014.

Custodial Credit Risk – Deposits

Custodial Credit Risk is the risk that in the event of a depository institution failure, the Districts' deposits may not be returned. The District does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). All deposits meet current guidelines.

NOTE 2. SAFEGUARDING CASH AND CASH EQUIVALENTS (CONTINUED)

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

Category 1 Deposits that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the District's cash deposits are classified as Category 2.

Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements. The investment pool and repurchase agreements are considered nonparticipating contracts. The District has a repurchase agreement whereby daily bank deposits sweep to an interest bearing overnight account. Such agreements can be categorized according to three levels of risk. These three levels of risk are:

Category 1 Investments that are insured or collateralized with securities held by the District or by its agent in the District's name.

Category 2 Investments that are collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 Uninsured and unregistered investments held by the counter party, its trust or its agent, but not in the District's name.

The District's investment in repurchase agreements is classified by risk level as Category 2.

NOTE 3. PROPERTY TAXES

Property taxes collected are recorded as revenues in the fund for which they were levied. The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited in the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$.527 per \$100 valuation of real property, \$.527 per \$100 valuation for business personal property and \$.533 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communication services, cablevision services, electric power, water, and natural, artificial and mixed gas.

NOTE 4. RETIREMENT PLANS

Kentucky Teachers' Retirement System

Pension Plan

The Morgan County School System contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of the KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS web site at <http://www.ktrs.ky.gov/>.

Funding policy - Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries for members before July 1, 2008 and 14.105% of salaries for members after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions of 14.605%.

Medical Insurance Plan

Plan description - In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy - In order to fund the post-employment healthcare benefit, four and one half percent (4.5%) of gross annual payroll of members before July 1, 2008 is contributed. Two and one quarter percent (2.25%) is paid by member contributions and three quarters percents (.75%) from state appropriation and one and one half percent (1.50%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

The Morgan County Schools' total payroll for the year was \$10,984,754. The payroll for employees covered under KTRS was \$8,038,882. For the year ended June 30, 2014, the Commonwealth contributed \$922,087 to KTRS for the benefit of participating employees. The School districts contributions to KTRS for the year ending June 30, 2014 were \$149,223 which represents those employees covered by federal programs.

NOTE 4. RETIREMENT PLANS (CONTINUED)

County Employees Retirement System

The District has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The District's contribution rate for nonhazardous employees was 18.89 percent.

The District's contribution for FY 2012 was \$547,223, FY 2013 was \$547,223, and FY 2014 was \$540,009.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

NOTE 5. LIABILITY FOR COMPENSATED ABSENCES

Employees are awarded a maximum of 10 days for 185-day contracts, 11 days for 11-month contracts, and 12 days for 12-month contracts of sick leave annually, based upon employment contract terms and District policy. Sick leave is accrued without limitation. Upon retirement from the school system, a certified and classified employee receives from the District an amount equal to 30% of the value of accumulated sick leave at the current daily rate of pay. At June 30, 2014, the estimate of the current portion for those employees with covered service is \$126,688, which is recorded as a current liability in the district-wide financial statements. The long-term portion is \$99,386, which is recorded as a non-current liability in the long-term district-wide financial statement.

NOTE 6. CAPITAL ASSETS

Capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of Net Position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of Net Position and in the respective funds.

All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Estimated Life in Years</u>
Buildings and Improvements	25-50
Land Improvements	20
Technology Equipment	5
Audi-Visual Equipment	15
Vehicles	5-10
Food Service Equipment	10-12
Furniture and Fixtures	7
Rolling Stock	15

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MORGAN COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 6. CAPITAL ASSETS (CONTINUED)

Governmental Assets	June 30, 2013	Additions	Retirements	June 30, 2014
Cost				
Land	\$ 1,089,020	\$ -	\$ -	\$ 1,089,020
Land Improvements	725,120	51,070	-	776,190
Buildings & Improvements	25,834,648	15,052,521	-	40,887,169
Technology Equipment	1,223,182	10,000	(18,698)	1,214,484
Other	3,431,029	8,750	-	3,439,779
Vehicles	3,337,997	291,540	(299,043)	3,330,494
Construction in Progress	9,299,679	5,707,564	(14,962,991)	44,252
Totals at historical cost	44,940,675	21,121,445	(15,280,732)	50,781,388
Less: Accumulated Depreciation				
Land Improvements	40,294	38,809	-	79,103
Buildings & Improvements	8,804,000	727,488	-	9,531,488
Technology Equipment	1,052,284	76,157	(18,698)	1,109,743
Other	2,832,921	131,622	-	2,964,543
Vehicles	1,944,099	264,221	(299,043)	1,909,277
Total accumulated depreciation	14,673,598	1,238,297	(317,741)	15,594,154
Net Fixed Assets - Government	\$ 30,267,077	19,883,148	(14,962,991)	\$ 35,187,234
Business Assets				
Vehicles	\$ 18,800	-	-	\$ 18,800
Technology Equipment	6,063	-	-	6,063
General Equipment	780,814	274,697	-	1,055,511
Totals at historical cost	805,677	274,697	-	1,080,374
Less: Accumulated Depreciation				
Vehicles	3,447	3,760	-	7,207
Technology Equipment	4,557	1,213	-	5,770
General Equipment	566,141	47,981	-	614,122
Total accumulated depreciation	574,145	52,954	-	627,099
Net Fixed Assets - Business Type	\$ 231,532	221,743	-	\$ 453,275

MORGAN COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2014
(Continued)

NOTE 7. BOND DEBT

The District is required to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Morgan County Public Board of Education Finance Corporation to construct school facilities. Current requirements for principal and interest expenditures are accounted for in the Building Fund in accordance with state law. The District is liable for all issues; however, School Facilities Construction Commission participates by contributing those portions of debt that are appropriated in the State's biennial budget.

Morgan County School District is contingently liable for the debt listed below under School Facilities Construction Commission (SFCC). The SFCC principal has not been included as bonded indebtedness in the basic financial statements. A Schedule of Total Bonded Debt Maturities follows on page 33.

The issue date, original amounts of the issue and interest rates are summarized below:

<u>Bond Issue</u>	<u>Original Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u>	2013			2014
				<u>Outstanding Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Outstanding Balance</u>
2004 Series	322,000	2024	2.75-5.00%	15,000	-	15,000	-
2005 Series	8,765,000	2026	3.75-4.00%	1,190,000	-	370,000	820,000
2012 Series	11,490,000	2032	2.00-3.50%	11,325,000	-	150,000	11,175,000
2013R Series	6,050,000	2025		5,965,000	-	105,000	5,860,000
2013RA Series	1,169,000	2023		1,154,000	-	495,000	659,000
2013 Series	840,000	2033		840,000	-	35,000	805,000
TOTAL				\$ 20,489,000	\$ -	\$ 1,170,000	\$ 19,319,000

Assuming the issues are not called prior to scheduled maturity, the minimum obligations at June 30, 2014 for debt service are as shown in the supplemental Schedule of Total Bonded Debt Maturities, which includes "participation agreements" with the Kentucky School Facilities Construction Commission. The Kentucky General Assembly created the KSFCC for the purpose of assisting local schools in meeting school construction needs. The participation agreement amounts to be assumed by KSFCC are recorded as on behalf in the District's basic financial statements.

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NOTE 7. BOND DEBT (CONTINUED)

**MORGAN COUNTY SCHOOLS
SCHEDULE OF DEBT PAYMENTS
AS OF JUNE 30, 2014**

YEAR	MORGAN COUNTY SCHOOL DISTRICT		SCHOOL FACILITIES CONSTRUCTION		TOTAL
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2015	\$ 415,125	\$ 257,427	\$ 739,875	\$ 209,763	\$ 1,622,190
2016	425,125	254,979	673,875	191,164	1,545,143
2017	419,671	246,414	685,329	177,699	1,529,113
2018	429,619	238,297	695,381	169,380	1,532,677
2019	434,173	230,010	700,827	160,570	1,525,580
2020	448,055	221,544	716,945	150,906	1,537,450
2021	455,413	210,673	724,587	138,959	1,529,632
2022	470,901	197,440	739,099	124,946	1,532,386
2023	484,870	183,626	750,130	109,315	1,527,941
2024	497,808	169,439	767,192	92,552	1,526,991
2025	510,271	154,773	769,729	75,076	1,509,849
2026	531,047	139,735	733,953	57,296	1,462,031
2027	568,785	124,423	206,215	45,394	944,817
2028	588,747	106,648	211,253	39,006	945,654
2029	608,427	87,808	221,573	32,336	950,144
2030	627,637	67,274	227,363	25,045	947,319
2031	646,651	46,091	233,349	17,559	943,650
2032	670,233	23,458	239,767	9,642	943,100
2033	-	-	50,000	1,500	51,500
TOTAL	\$ 9,232,558	\$ 960,059	\$10,086,442	\$1,828,108	\$24,107,167

NOTE 8. CAPITAL LEASE PAYABLE

The amount shown in the accompanying financial statements as lease obligations represent the Board's future obligations to make lease payments relating to equipment lease revenue bonds issued by the Kentucky Inter-local School Transportation Association ("KISTA"). These amounts are not reflected on the fund financial statements. The bonds issued to provide funds for the purchase of school buses and equipment, and the lease of these buses and equipment by the Board of KISTA is the source of the Board's obligation. Upon full payment of the lease, title will be conveyed to the Board.

NOTE 8. CAPITAL LEASE PAYABLE (CONTINUED)

	2013			2014
	Outstanding			Outstanding
<u>KISTA Issue</u>	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
2006A	\$ 87,284	\$ -	\$ 31,794	\$ 55,490
2006B	111,917	-	29,034	82,883
2008	77,258	-	15,465	61,793
2009	46,951	-	7,685	39,266
2011	262,267	-	31,644	230,623
2012	309,479	-	39,102	270,377
2012B	364,767	-	39,983	324,784
2013	72,738	-	8,918	63,820
2014	-	272,578	-	272,578
TOTAL	\$ 1,332,661	\$ 272,578	\$ 203,625	\$ 1,401,614

Shown below is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2014. Such leases are paid by the General Fund.

**MORGAN COUNTY SCHOOLS
SCHEDULE OF CAPITAL LEASE PAYMENTS
AS OF JUNE 30, 2014**

<u>YEAR</u>	MORGAN COUNTY SCHOOL DISTRICT		<u>TOTALS</u>
	<u>PRINCIPAL</u>	<u>INTEREST</u>	
2015	\$ 224,622	\$ 35,638	\$ 260,260
2016	217,813	29,888	247,701
2017	186,701	24,020	210,721
2018	161,999	19,180	181,179
2019	150,773	15,197	165,970
2020	140,009	11,506	151,515
2021	136,124	8,060	144,184
2022	100,512	4,491	105,003
2023	57,631	2,100	59,731
2024	25,430	763	26,193
TOTAL	\$ 1,401,614	\$ 150,843	\$ 1,552,457

NOTE 9. OPERATING FUND TRANSFERS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	KETS Offer of Assistance	\$ 29,728
Operating	General	Debt Service	KISTA Payments	238,427
Operating	Special Revenue	Construction	Fund Projects	17,275
Operating	Capital Outlay	General	Capital Fund Request	63,173
Operating	Capital Outlay	Construction	Fund Projects	46,400
Operating	Capital Outlay	Debt Service	Bond Payments	2,696
Operating	Building	Debt Service	Bond Payments	673,532
Total Transfers				<u>\$1,071,231</u>

NOTE 10. DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance/Net Position. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance/Net Position:

General Fund	(\$411,998)
Construction Fund	(\$5,531,630)

NOTE 11. RISK MANAGEMENT

Liability Insurance Coverage

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively rated which include worker's compensation insurance.

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions: injuries to employees; and natural disasters. The District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association.

Worker's Compensation

The District pays an annual premium to each fund for coverage. Contributions to the Worker's Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

Unemployment Insurance

The District obtains unemployment insurance coverage through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, the risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance coverage for all other risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

NOTE 11. RISK MANAGEMENT (CONTINUED)

COBRA

Under COBRA, (Consolidated Omnibus Budget Reconciliation Act) employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for potential loss.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Litigation

The District is not currently named as defendants in any lawsuits to the knowledge of the School District and the District's attorney.

Grant Programs

The District receives funding from federal, state and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantors' review indicated that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of future refunds and unreimbursed disbursements, if any, are not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue their programs.

NOTE 13. BUDGETARY DISCLOSURE REQUIREMENTS

Budgetary comparisons for the General Fund and Special Revenue Fund are disclosed as required supplementary information. "On behalf" contributions made by the Commonwealth of Kentucky were recorded in the District's records as revenues and expenditures. The purpose of the policy change was to conform to requirements of the GASB 34 reporting model. The District's budget appropriations did reflect this change in policy.

NOTE 14. ON-BEHALF PAYMENTS

The District receives on-behalf payments from the State of Kentucky for items including retirement and insurance. The amount received for the fiscal year ended June 30, 2014 was \$4,122,090. These payments were recorded as follows:

General Fund	\$	3,035,150
Food Service		104,780
Debt Service		982,160
Total	\$	<u>4,122,090</u>

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the year ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Variance % Favorable (Unfavorable)
REVENUES					
From local sources					
Taxes					
Property taxes	\$ 1,085,000	\$ 1,085,000	\$ 1,203,369	\$ 118,369	10.91%
Motor vehicle taxes	325,000	325,000	380,362	55,362	17.03%
Utility taxes	575,000	575,000	652,957	77,957	13.56%
Unmined minerals taxes		-	8,830	8,830	100.00%
Other taxes	150,000	150,000	308,429	158,429	105.62%
Earnings on investments	15,000	15,000	8,584	(6,416)	-42.77%
Other local revenues	99,719	99,719	191,400	91,681	91.94%
State Sources					
SEEK	9,532,748	9,669,697	9,669,697	-	0.00%
On Behalf	2,935,494	2,935,492	3,035,150	99,658	3.39%
Other	17,202	17,202	22,457	5,255	30.55%
Federal-Indirect	45,000	45,000	56,443	11,443	25.43%
Inter-fund transfers	51,481	63,173	63,173	-	0.00%
Beginning Balance	2,256,748	2,259,005	2,364,241	105,236	4.66%
TOTAL REVENUES	17,088,392	17,239,288	17,965,092	725,804	4.21%
EXPENDITURES					
Instructional	8,464,399	8,512,889	8,357,824	155,065	1.82%
Student services					
Student	892,232	892,180	884,893	7,287	0.82%
Instructional staff	571,639	590,353	553,509	36,844	6.24%
District administrative	520,659	530,284	483,628	46,656	8.80%
School administrative	1,086,328	1,089,119	1,071,699	17,420	1.60%
Business	502,832	548,549	491,277	57,272	10.44%
Plant operation and maintenance	2,308,851	2,363,167	2,340,628	22,539	0.95%
Student transportation	1,649,338	1,660,722	1,548,733	111,989	6.74%
Community Services	18,355	18,354	18,909	(555)	-3.02%
Inter-fund transfers	273,806	268,277	268,155	122	0.05%
Contingency	799,953	765,394	-	765,394	100.00%
TOTAL EXPENDITURES	17,088,392	17,239,288	16,019,255	1,220,033	7.08%
Excess (Deficit) of Revenues Over Expenditures	\$ -	\$ -	\$ 1,945,837	\$ 1,945,837	11.29%

NOTE: BUDGET INFORMATION IS DERIVED FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT, WHICH MAY VARY FROM THE BASIC FINANCIAL STATEMENTS. THE VARIATIONS ARE PRIMARILY DUE TO PRESENTATION OF OTHER FINANCING SOURCES (USES) OF FUNDS AND TRANSFERS.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
SPECIAL FUND
BUDGETARY COMPARISON SCHEDULE
For the year ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)	Variance % Favorable (Unfavorable)
REVENUES					
From local sources					
Earnings on investments	\$ -	\$ 14	\$ 32	\$ 18	128.57%
Other local revenues	34,000	41,735	45,152	3,417	8.19%
Intergovernmental - state	590,695	676,610	681,785	5,175	0.76%
Intergovernmental - Federal	1,725,614	1,781,238	1,746,888	(34,350)	-1.93%
Inter-fund transfers	35,257	29,728	29,728	-	0.00%
TOTAL REVENUES	<u>2,385,566</u>	<u>2,529,325</u>	<u>2,503,585</u>	<u>(25,740)</u>	<u>-1.02%</u>
EXPENDITURES					
Instructional	1,649,693	1,686,734	1,741,525	(54,791)	-3.25%
Student services:					
Student	82,304	107,305	91,696	15,609	14.55%
Instructional staff	274,950	260,495	269,030	(8,535)	-3.28%
Plant operation and maintenance	65,000	107,591	69,415	38,176	35.48%
Student transportation	22,440	51,679	14,847	36,832	71.27%
Community services	291,179	298,246	299,797	(1,551)	-0.52%
Inter-fund transfers	-	17,275	17,275	-	0.00%
TOTAL EXPENDITURES	<u>2,385,566</u>	<u>2,529,325</u>	<u>2,503,585</u>	<u>25,740</u>	<u>1.02%</u>
Excess (Deficit) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>

NOTE: BUDGET INFORMATION IS DERIVED FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT, WHICH MAY VARY FROM THE BASIC FINANCIAL STATEMENTS. THE VARIATIONS ARE PRIMARILY DUE TO PRESENTATION OF OTHER FINANCING SOURCES (USES) OF FUNDS AND TRANSFERS.

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS
As of June 30, 2014

	<u>Building Fund</u>	<u>Capital Outlay Fund</u>	<u>Non-Major Funds Total</u>
ASSETS			
Cash and cash equivalents	\$ 278,253	\$ 77,720	\$ 355,973
Total assets	<u>\$ 278,253</u>	<u>\$ 77,720</u>	<u>\$ 355,973</u>
LIABILITIES AND FUND BALANCES			
Fund Balances			
Restricted:			
Restricted Other	\$ 15,177	\$ 77,720	\$ 92,897
Restricted for SFCC Escrow	263,076	-	263,076
Total fund balances	<u>\$ 278,253</u>	<u>\$ 77,720</u>	<u>\$ 355,973</u>

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the year ended June 30, 2014

	Building Fund	Capital Outlay Fund	Debt Service Fund	Total Non- major Govt. Funds
Revenues				
From local sources				
Property taxes	\$ 195,627	\$ -	\$ -	\$ 195,627
State sources				
SEEK	493,082	189,989	-	683,071
On Behalf	-	-	982,160	982,160
Total revenues	<u>688,709</u>	<u>189,989</u>	<u>982,160</u>	<u>1,860,858</u>
Expenditures				
Debt service		-	1,896,815	1,896,815
Total expenditures	<u>-</u>	<u>-</u>	<u>1,896,815</u>	<u>1,896,815</u>
Excess (deficit) of revenues over expenditures	<u>688,709</u>	<u>189,989</u>	<u>(914,655)</u>	<u>(35,957)</u>
Other Financing Sources (Uses)				
Operating transfers in	-	-	914,655	914,655
Operating transfers out	(673,532)	(112,269)		(785,801)
Total other financing sources (uses)	<u>(673,532)</u>	<u>(112,269)</u>	<u>914,655</u>	<u>128,854</u>
Net change in fund balances	15,177	77,720	-	92,897
Fund balance, July 1, 2013	<u>263,076</u>	<u>-</u>	<u>-</u>	<u>263,076</u>
Fund balance, June 30, 2014	<u><u>\$ 278,253</u></u>	<u><u>\$ 77,720</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 355,973</u></u>

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
MORGAN COUNTY HIGH SCHOOL ACTIVITY FUND
ALL FUNDS COMBINED
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

For the year ended June 30, 2014

Individual Funds	Fund Balance June 30, 2013	Receipts	Disburse- ments	Transfers In (Out)	Fund Balance June 30, 2014
Adam/Williams	\$ 266	\$ 1,890	\$ (1,378)	\$ -	\$ 778
Anti Bully Project	102	40	-	-	142
AP English III	27	177	-	-	204
Arts Club	1,317	240	(386)	-	1,171
Athletics	2,452	52,979	(51,282)	(2,922)	1,227
Band	3,128	11,570	(12,614)	-	2,084
Baseball	2,199	3,093	(4,956)	1,000	1,336
Bookstore	1,497	-	(1,423)	-	74
Boys Basketball	312	-	(1,005)	1,000	307
Boys Golf	1,080	-	(740)	1,000	1,340
Cheerleaders	1,460	13,205	(13,869)	1,000	1,796
Class of 2013	2,690	18	7	(2,715)	-
Class of 2014	4,856	27,738	(30,177)	(2,417)	-
Class of 2015	-	9,047	(6,707)	250	2,590
Class of 2016	428	3,077	(1,563)	250	2,192
Class of 2017	-	545	(433)	2,965	3,077
Class of 2018	-	-	-	2,618	2,618
Concession/Athletic	13,591	23,417	(11,634)	(18,726)	6,648
Cross Country	2,053	262	(640)	1,000	2,675
Drama Club	-	2,568	(2,152)	-	416
F.C.C.L.A	141	255	(379)	-	17
Fellowship of Christian Athletics	315	-	-	-	315
Football	1,515	-	(6,937)	5,422	-
Future Business Leaders of America	8	1,317	(1,272)	-	53
Future Farmers of America	6,152	22,594	(26,298)	-	2,448
Girls Basketball	813	5,605	(6,597)	1,000	821
Girls Golf	760	410	(1,674)	1,000	496
Home Economics	141	1,365	(1,455)	72	123
Interact Club	938	6,250	(5,155)	-	2,033
Juniorettes	1,181	-	-	(1,181)	-
Key Club	-	583	-	-	583
Lance Teachers	171	160	(150)	-	181
Library	226	182	(348)	-	60
National Honor Society	2,390	28,138	(27,861)	1,000	3,667
Office	90	23	(12)	-	101
Pepsi Teachers	1,798	2,959	(2,979)	-	1,778
Project Prom	689	1,121	(1,207)	-	603
Quarterback Club	11,334	7,891	(18,186)	-	1,039
School Supply Club	6,570	11,072	(11,599)	181	6,224
Softball	751	4,072	(4,773)	643	693
Space Science	39	100	-	-	139
Spanish Club	275	1,523	(1,708)	356	446
Spring Concessions	-	2,479	(1,871)	534	1,142
Student Council	3,062	1,365	(1,015)	-	3,412
Students Against Drunk Drivers	1,473	2,850	(3,018)	-	1,305
Teachers Account	105	-	(90)	-	15
Technology Student Association	182	1,064	(1,010)	-	236
Tennis	4,350	6,734	(9,703)	2,000	3,381
Track Club	989	3,940	(6,654)	2,000	275
VO-AG	7	-	-	-	7
Volleyball	1,129	6,456	(9,004)	2,500	1,081
Winter Guard	82	2,494	(2,737)	192	31
Yearbook	2,206	830	(1,880)	-	1,156
Youth Service	822	345	(659)	(22)	486
Totals	\$ 88,162	\$ 274,043	\$(297,183)	\$ -	\$ 65,022

MORGAN COUNTY PUBLIC SCHOOL DISTRICT
FIDUCIARY FUNDS
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
For the year ended June 30, 2014

Schools	Fund Balance June 30, 2013	Receipts	Disburse- ments	Fund Balance June 30, 2014
Elementary				
East Valley	\$ 1,179	\$ 17,975	\$ (18,133)	\$ 1,021
Ezel	5,233	19,461	(17,605)	7,089
Central	7,581	60,215	(62,510)	5,286
Wrigley	12,118	53,728	(58,157)	7,689
Middle				
Morgan County	48,062	96,104	(110,006)	34,160
Pension, Inv, PP Trust	-	500	-	500
Total	<u>\$ 74,173</u>	<u>\$ 247,983</u>	<u>\$ (266,411)</u>	<u>\$ 55,745</u>

MORGAN COUNTY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

<u>Program Title</u>	<u>Munis No.</u>	<u>Federal CFDA No.</u> Cluster	<u>Expenditures</u>	<u>Total By CFDA No.</u>	
U. S. DEPARTMENT OF AGRICULTURE					
<i>Passed Through Kentucky Department of Education:</i>					
<u>Child Nutrition Cluster</u>					
School Breakfast Program	203x	10.553	\$ 284,089		
National School Lunch Program	205x	10.555	651,291		
Summer Food Program	209x	10.559	16,553	\$ 951,933	**
Child and Adult Food Program	208x	10.558	30,812	\$ 30,812	
<i>Passed Through Kentucky Department of Agriculture:</i>					
<u>Food Distribution Cluster</u>					
Commodity Supplemental Food Program	201x	10.565	76,076	76,076	
TOTAL U.S. DEPARTMENT OF AGRICULTURE				<u>1,058,821</u>	
U. S. DEPARTMENT OF EDUCATION					
<i>Passed Through Kentucky Department of Education:</i>					
Community Based Work Transition	3713	84.002	7,282		
Community Based Work Transition	3714	84.002	649	7,931	
<u>Title I Cluster</u>					
Title I: Part A - Improving Basic Programs	3103	84.010	107,168		
Title I: Part A - Improving Basic Programs	3104	84.010	694,064		
Title I: Part A - School Improvement	3202	84.010	823	802,055	**
Title I - Neglected and Delinquent Children	3134	84.013	13,480		
Title I - Neglected and Delinquent Children Transition Funds	3134T	84.013	2,360	15,840	
<u>Special Education Cluster</u>					
IDEA B - BASIC	3373	84.027	359,593		
IDEA B - BASIC	3374	84.027	126,340		
IDEA B - Preschool	3433	84.173	22,469		
IDEA B - Preschool	3434	84.173	575	508,977	**
Carl Perkins, Title I: Part C - Vocational (Carry forward)	3483A	84.048	775		
Carl Perkins, Title I: Part C - Vocational	3484	84.048	11,549	12,324	
21st Century Community Learning Center	5502	84.287	11,728		
21st Century Community Learning Center - Supplemental	5502J	84.287	1,000		
21st Century Community Learning Center	5503	84.287	40,584		
21st Century Community Learning Center - LEA	5503Z	84.287	14,851	68,163	
Title VI: Part B, Subpart 2 - Rural & Low Income Schools	3502	84.358	3,102		
Title VI: Part B, Subpart 2 - Rural & Low Income Schools	3503	84.358	40,112		
Title VI: Part B, Subpart 2 - Rural & Low Income Schools	3504	84.358	6,985	50,199	
Title II: Part A - Improving Teacher Quality State Grants	4013	84.367	3,111		
Title II: Part A - Improving Teacher Quality State Grants	4014	84.367	162,350	165,461	**

See accompanying notes to Schedule of Expenditures of Federal Awards

MORGAN COUNTY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2014

<u>Program Title</u>	<u>Munis No.</u>	<u>Federal CFDA No.</u>	<u>Expenditures</u>	<u>Total By CFDA No.</u>
U. S. DEPARTMENT OF EDUCATION (CONTINUED)		Cluster		
* ARRA - Title I - School Improvement Grant - LEA Year 2	5600C	84.388	750	750
Race To The Top	4521	84.413	18,319	18,319
<i>Passed through Institute of Regional Analysis Public Policy</i>				
GEAR-UP	3793G	84.334	4,100	
GEAR-UP	3794G	84.334	87,280	91,380
TOTAL U.S. DEPARTMENT OF EDUCATION				<u>1,741,399</u>
U. S. DEPARTMENT OF COMMERCE				
<i>Passed through NOAA</i>				
PRIDE Grant	2724	11.469	1,500	1,500
APPALACHIAN REGIONAL COMMISSION				
<i>Passed through Morehead State University</i>				
Appalachian Higher Education Network (KY AHED)	6884	23.011	3,991	3,991
TOTAL EXPENDITURES OF FEDERAL AWARDS				<u><u>\$ 2,805,711</u></u>

* American Reinvestment & Recovery Act

Tested as Major Program or Cluster **

MORGAN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2014

NOTE A. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal activity of the Morgan County Public Schools and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B. FOOD DISTRIBUTION PROGRAM

Non-monetary assistance is reported in the Schedule at the fair value of the commodities received. Commodities passed through the U.S. Dept. of Agriculture during the year totaled \$76,076.

MORGAN COUNTY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2014
Section 1. Summary of Auditor's Findings

Financial statements:

Type of auditor's report issued:	<u>unmodified</u>
Internal control over financial reporting	<u>Yes</u> <u>No</u>
• Material Weaknesses identified?	X
• Significant Deficiencies identified that are not considered to be material weaknesses?	X None Reported
• Noncompliance material to financial statements noted?	X

Federal Awards:

Internal control over major programs	<u>Yes</u> <u>No</u>
• Material weakness identified?	X
• Significant Deficiencies identified that are not considered to be material weaknesses?	X None Reported

Type of auditor's report issued on compliance for major programs:	<u>unmodified</u>
	<u>Yes</u> <u>No</u>
• Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?	X

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
84.010	Title I Cluster
84.027, 84.173	Special Education Cluster
84.367	Title II- Improving Teacher Quality

- Dollar threshold used to distinguish between type A and type B programs \$300,000
- Auditee qualified as low-risk auditee? Yes X No

Section 2. Financial Statement Findings

Current Year Findings: None Reported

Prior Year Findings: 2013-01 Tagging Fixed Assets- Corrected

Section 3. Federal Awards Findings and Questionable Costs

Current Year Findings: No matters were reported

Prior Year Findings: No matters were reported

MORGAN COUNTY SCHOOL DISTRICT
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
Year ended June 30, 2014

Prior Year Findings:

2013-01 Tagging Fixed Assets

Statement of Condition: A new addition was not tagged or properly marked as property of Morgan Co Board of Education.

Criteria for Condition: All assets susceptible to conversion to personal use should be tagged immediately after purchase.

Cause of the Condition: An asset used by a student on a daily basis was not properly tagged as Morgan Co Board of Education property.

Effect of the Condition: Assets could be converted to personal use by the student.

*Recommendation
for Correction:* All assets should be properly tagged immediately after purchase before being placed within the district.

Management Response: All fixed asset purchases will be tagged before being distributed for use.

Status: During testing, auditors observed tags on a sample of new additions. Improved procedures corrected this prior year comment.

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Members of the Board
Morgan County School District
West Liberty, Kentucky

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Morgan County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Morgan County School District's basic financial statements, and have issued our report thereon dated November 13, 2014.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Morgan County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morgan County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Morgan County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weakness or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Morgan County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the Independent Auditor's Contract.

We noted certain matters that we reported to management of Morgan County School District in a separate letter dated November 13, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ross and Company", written in a cursive style.

Ross and Company, PLLC
November 13, 2014

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
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Members of the Board
Morgan County School District
West Liberty, Kentucky

**INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited Morgan County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of Morgan County School District's major federal programs for the year ended June 30, 2014. Morgan County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Morgan County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and the requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I and II of the Independent Auditor's Contract.. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Morgan County School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Morgan County School District' compliance.

Opinion on Each Major Federal Program

In our opinion, Morgan County School District complied, in all material respects, with the types compliance requirements referred to above that could have direct and material effect on each of its major federal programs for the year ended June 30, 2014.

INDEPENDENT REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Report Internal Control over Compliance

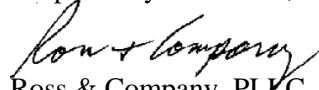
Management of Morgan County School District is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Morgan County School District's internal control over compliance with the types requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstance for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Morgan County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of the internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully Submitted,


Ross & Company, PLLC
November 13, 2014

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800 Envoy Circle
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State Committee for School District Audits
Superintendent and Members of the Public Schools
Morgan County School District
West Liberty, Kentucky

RECOMMENDATIONS AND COMMENTS TO MANAGEMENT

In planning and performing our audit, we considered Morgan County School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Morgan County School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness.

Current Year Findings –

2014-01: Use of Purchase Orders, (Redbook)

Statement of Condition: Purchase orders were not used for every purchase.

Criteria for Condition: A Purchase Order shall be prepared and approved by the sponsor and principal before the payment is obligated per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Purchase orders were not utilized for every purchase.

Effect of the Condition: Purchases being made without proper prior approval.

Recommendation for

Correction: A purchase order shall be prepared and approved before all purchases.

Management Response Purchase at East Valley will not be approved without first being approved for a purchase order. A purchase order will be used with every purchase that is being purchased through school funds. Stewart Cook , Principal, East Valley Elementary.

MORGAN COUNTY PUBLIC SCHOOLS
RECOMMENDATIONS AND
COMMENTS TO MANAGEMENT
JUNE 30, 2014
(Continued)

2014-02: External Booster Club using District's Federal ID Number

Statement of Condition: Ezel PTO has a bank account with Bank of Mountains bank using the District's Federal ID number.

Criteria for Condition: An external support/booster organization must use external bank accounts and shall obtain its own Federal Employer Identification Number (FEIN) specifically and only for its use. External support/booster organizations shall not use the FEIN of the school or district. per Accounting Procedures for Kentucky School Activity Funds, "Redbook."

Cause of the Condition: Ezel PTO opened an account using the District's Federal ID number.

Effect of the Condition: The school may disassociate with any external support/booster organization that does not comply with the External Support/Booster Organization section in the "Redbook". If the school disassociates with the external organization, the external organization shall not use the school name for its activities, conduct any fundraising in the name of the school or athletic group within the school and shall not use the school facilities to conduct such activities.

Recommendation for

Correction: Ezel must have their PTO apply for their own Federal Employer Identification Number and set up the account under their own name.

Management Response: Ezel Elementary CPTO is in the process of changing the FEIN number at the Bank of the Mountains. We will notify Mr. Whitt when this has taken place.

Prior Year Findings –

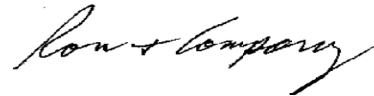
2013-01	<u>Tagging Fixed Assets</u>	(Corrected)
2013-02:	<u>Deposits over \$100, (Redbook)</u>	(Corrected)
2013-03:	<u>Handling Cash, (Redbook)</u>	(Corrected)
2013-04:	<u>Multiple Receipt Forms, (Redbook)</u>	(Corrected)
2013-05	<u>Signed Blanked Checks Should Not be Issued (Redbook)</u>	(Corrected)
2013-06	<u>All Checks Should Have Two Signatures (Redbook)</u>	(Corrected)

MORGAN COUNTY PUBLIC SCHOOLS
RECOMMENDATIONS AND
COMMENTS TO MANAGEMENT
JUNE 30, 2014
(Continued)

If any action occurs after this exit conference date, which affects the significant or material findings, it is the responsibility of management to provide that information to the auditors.

We sincerely appreciate the courtesy extended to our audit staff again this year. Of course, should you have any questions or concerns regarding your audit, please feel free to contact us.

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC
November 13, 2014